

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BONN IMMEDIATE

AMEMBASSY NEW DELHI

S E C R E T STATE 222724

EXDIS, BONN FOR ASSISTANT SECRETARY SISCO

FOLLOWING REPEAT STATE 222724 SENT ACTION PEKING DATED 11 NOV 73:

QTE

S E C R E T STATE 222724

EXDIS TOSEC 398

E.O. 11652: XGDS

TAGS: OGEN

SUBJECT: INDIAN RUPEE NEGOTIATIONS: BACKGROUND INFO

REF: PEKING 1398

1. GENERAL BACKGROUND.

A. WE HOLD TWO TYPES OF FINANCIAL ASSETS IN INDIA:
FIRST, A 3.3 BILLION DOLLAR DEBT FROM HARD CURRENCY DEVELOP-
MENT LOANS MADE BY USAID, EXIM AND PL-480 DOLLAR CREDIT
SALES. SECOND, THE INDIANS ALSO OWE US 2.4 BILLION DOLLARS
EQUIVALENT IN OUTSTANDING PRINCIPAL ON FORTY-YEAR LOANS
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REPAYABLE IN NON-CONVERTIBLE LOCAL CURRENCY, I.E., INDIAN
RUPEES. IN ADDITION, WE ALREADY HAVE SOME 800 MILLION
DOLLARS EQUIVALENT IN RUPEE-LOAN REPAYMENTS IN OUR ACCOUNT
WITH INDIA'S CENTRAL BANK, FOR A TOTAL OF 3.2 BILLION

DOLLARS EQUIVALENT IN RUPEE ASSETS. THE PROPOSED RUPEE SETTLEMENT IS CONCERNED ONLY WITH THESE 3.2 BILLION DOLLARS EQUIVALENT OF RUPEE ASSETS AND NOT WITH INDIA'S DOLLAR DEBT TO US.

B. THESE RUPEE ASSETS COME LARGELY FROM PL-480 PROCEEDS PURSUANT TO AGREEMENTS CONCLUDED IN THE 1960'S AND FROM RUPEE-REPAYABLE DOLLAR LOANS FROM THE 1950'S. THEY ARE GOVERNED BY SEPARATE LAWS: PL-480 (2.2 BILLION DOLLARS EQUIVALENT) AND THE FOREIGN ASSISTANCE ACT (1 BILLION DOLLARS EQUIVALENT). IN ACCORDANCE WITH PROVISIO (3) OF SECTION 104 OF PL-480 WE MAY GRANT PL-480 RUPEES TO INDIA FOR DEVELOPMENT PURPOSES WITHOUT CONGRESSIONAL APPROPRIATION. WE HAVE NO RPT NO COMPARABLE AUTHORITY FOR FOREIGN ASSISTANCE ACT RUPEES. THE ORIGINAL INDO-US AGREEMENTS (BOTH FAA AND PL-480) LIMITED THE USE OF OUR RUPEE ASSETS, LARGELY TO COVERING U.S. EXPENSES IN INDIA AND TO GRANTS OR LOANS TO INDIA FOR INDIAN DEVELOPMENT. IN SUM, WE CANNOT USE THESE RUPEES OUTSIDE INDIA AND THEIR USE INSIDE INDIA IS RESTRICTED.

2. RATIONALE.

A. WE HAVE PROPOSED THE SETTLEMENT BECAUSE:

- A RESOLUTION OF THIS LONG-STANDING IRRITANT WILL BE A MAJOR STEP IN BUILDING A NEW RELATIONSHIP WITH INDIA.
- AS THE GOVERNMENT ACCOUNTING OFFICE'S 1971 REPORT STATED: "IT APPEARS HIGHLY UNLIKELY THAT THE U.S. WILL BE ABLE TO CONVERT MORE THAN A SMALL PORTION OF ITS TOTAL RUPEE HOLDINGS INTO REAL RESOURCES FOR ITS OWN USE." (THIS PROPOSITION IS ABSOLUTELY FUNDAMENTAL TO AN UNDERSTANDING OF THE "RUPEE PROBLEM". THERE ARE ONLY SO
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MANY GOODS AND SERVICES WHICH THE USG CAN SENSIBLY -- OR EVEN STUPIDLY -- PURCHASE AND USE WITHIN INDIA; ONCE YOU'VE BOUGHT THOSE EACH YEAR, ANY ADDITIONAL RUPEE ASSETS CANNOT RPT CANNOT BE CONVERTED INTO USEFUL REAL RESOURCES.)

- WE WISH TO END OUR EXCESSIVE INVOLVEMENT IN INDIAN INTERNAL PUBLIC FINANCE MATTERS, WHICH RESULTED FROM OUR MASSIVE RUPEE CLAIMS. OUR EXPENDITURES ARE LINE ITEMS IN THE INDIAN BUDGET.

B. FAILURE TO CONCLUDE A SETTLEMENT NOW RPT NOW WOULD
ADVERSELY AFFECT U.S. INTERESTS BY:

- INCREASING PRESSURES ON THE GOVERNMENT OF INDIA
TO REPUDIATE THE RUPEE DEBT TO THE U.S., AND
COULD IN TIME IMPERIL OUR WHOLLY SEPARATE
3.3 BILLION DOLLARS HARD CURRENCY DEBT;
- INCREASING THE LIKELIHOOD OF INDIAN ACTIONS TO
LIMIT OUR NUMEROUS PROGRAMS THERE.

3. PROPOSED SETTLEMENT.

- INDIA WOULD PREPAY NOW THE 2.4 BILLION DOLLARS
EQUIVALENT IN OUTSTANDING RUPEE LOAN PRINCIPAL.
- WE WOULD RETAIN 1 BILLION DOLLARS EQUIVALENT IN
AN INTEREST-FREE ACCOUNT IN INDIA'S CENTRAL BANK
FOR OUR EXCLUSIVE USE IN INDIA AND NEPAL, PLUS
ANOTHER 100 MILLION DOLLARS EQUIVALENT IN COOLEY
LOAN REPAYMENTS FROM 90 PRIVATE FIRMS DUE
THROUGH 1990.
- WE WOULD RETAIN COMPLETE CONTROL OVER USE OF
THESE RUPEES FOR THE FULL RANGE OF PURPOSES
AND PROGRAMS WE PREVIOUSLY FUNDED WITH RUPEES
(I.E., ALL USG EXPENDITURES IN INDIA, INCLUDING
INTERNATIONAL TRAVEL, EDUCATIONAL EXCHANGE, AND
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SCIENTIFIC RESEARCH). WE ESTIMATE THE 1 BILLION
DOLLARS EQUIVALENT WILL LAST TWENTY YEARS.

- INDIA WOULD PAY OVER 100 MILLION DOLLARS IN
HARD CURRENCY OR EQUIVALENT BENEFITS OVER THE
NEXT TEN YEARS, RATHER THAN OVER FORTY AS
ORIGINALLY CONTEMPLATED IN THE PL-480 LOAN
AGREEMENTS.
- WE WOULD GRANT THE REMAINING 2.1 BILLION DOLLARS
EQUIVALENT TO INDIA FOR MUTUALLY AGREED ECONOMIC
DEVELOPMENT ACTIVITIES.
- THUS OF THE 3.2 BILLION DOLLARS EQUIVALENT
INVOLVED, WE WOULD RETAIN OVER ONE-THIRD (34.4
PER CENT) WHILE GRANTING THE REMAINING TWO-THIRDS
TO INDIA.

4. CONGRESSIONAL REACTION.

A. IN SEPTEMBER, AMBASSADOR MOYNIHAN CONSULTED WITH
ABOUT TWO DOZEN SENATORS AND REPRESENTATIVES CONCERNING

THE PROPOSED SETTLEMENT.

B. THE SENATE ACCEPTED AN AMENDMENT TO THE DEFENSE PROCUREMENT AND AID BILLS BY SENATOR HARRY F. BYRD, JR. (IND., VA.) TO REQUIRE CONGRESSIONAL APPROVAL BY LAW, OF ANY DEBT SETTLEMENT WITH INDIA FOR LESS THAN THE FULL AMOUNT OWED. THE BYRD AMENDMENT WAS DELETED IN HOUSE/SENATE CONFERENCE FROM BOTH RPT BOTH BILLS, BUT LEGISLATIVE HISTORY WAS ADDED BY THE AID CONFEREES REQUIRING TRANSMITTAL OF THE PROPOSED SETTLEMENT TO THE SENATE FOREIGN RELATIONS AND THE HOUSE FOREIGN AFFAIRS COMMITTEES AS WELL AS TO BOTH AGRICULTURE COMMITTEES.

5. SCENARIO. WE MAY BE ABLE TO INITIAL AN AGREEMENT AD REFERENDUM IN DELHI AS EARLY AS THIS MONTH. THE SETTLEMENT WOULD THEN BE REVIEWED BY THE EXECUTIVE BRANCH AND TRANSMITTED BY THE PRESIDENT TO THE FOUR CONGRESSIONAL COMMITTEES CITED ABOVE. ACCORDING TO LAW, THE SETTLEMENT MAY NOT ENTER INTO FORCE UNTIL IT HAS BEEN
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BEFORE THESE COMMITTEES AT LEAST THIRTY DAYS (SIXTY DAYS IF TRANSMITTED WHEN CONGRESS IS NOT IN SESSION). CONCEIVABLY, THE SETTLEMENT COULD BE TRANSMITTED BEFORE CONGRESS ADJOURNS IN DECEMBER. IN ANY CASE, WE WOULD EXPECT THAT THE SETTLEMENT COULD ENTER INTO FORCE IN THE FIRST QUARTER OF 1974.

6. ABOVE BRIEFING INFO IS LIMITED OFFICIAL USE AND, IN SUBSTANCE, HAS BEEN SHARED WITH SEVERAL MEMBERS OF CONGRESS. RUSH UNQTE RUSH

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